

STOCKHOLDER LETTER

Dear Stockholder:

The Rural Telephone Bank (Bank) was designed to assure rural telephone systems access to private sources of capital by establishing a supplemental credit mechanism to which borrower systems may turn for all or part of their future capital requirements. Since its inception in 1971, the Bank has approved over \$3.6 billion in loans to rural telecommunications companies to help build America's telecommunications infrastructure. Today, more than 26 years later, the Bank has developed into a successful, forward-focused program with a continuing, strong demand for investment capital.

Ownership of the Bank, in addition to the U.S. Government, is shared by borrowers, former borrowers, and other related organizations authorized to invest. The Bank operates on a cooperative basis and earnings, in excess of the annual return of 2 percent required on the Government's investment, are returned to the non-Government owners as patronage refunds.

In fiscal year (FY) 1998, a total of \$168.1 million in loans were approved. Bank financing represented over 30 percent of the total loans approved by RUS's telecommunications loan program. Bank loans approved in FY 1998 will provide new service to approximately 67,800 residents and businesses and improved service to nearly 359,000 residents and businesses. On average, borrowers of the RUS programs (including Bank borrowers) invest in telecommunications plant at a rate of nearly \$5 to every \$1 of Federal investment.

During FY 1998, the Bank continued to address with its borrowers year 2000 (Y2K) compliance issues that may affect the operations of Bank-financed rural telecommunications systems. The Bank wants to help ensure that rural America steps across this threshold of time without social disruptions. We are taking an interactive role with you to aid in ensuring a smooth transition into the year 2000. We have been involved in this issue since 1996 and will continue our involvement into the year 2000 and beyond. Automated systems supporting the Bank's operations are also in the process of being modified in order to be Y2K compliant. Full implementation is anticipated well before the end of FY 1999.

Telecommunications is crucial to rural America's economic development--rural businesses must be able to compete and rural residents need better access to the global digital economy and quality health care and education. The Bank stands ready to continue its partnership with rural America to ensure that rural telecommunications providers have affordable means to modernize their networks.

Building on that partnership, the Bank will be moving efficiently to continue its vision, structure frameworks, and set an agenda for action that moves the Bank forward to benefit rural telecommunications users and enhance the quality of life in rural America.

Sincerely,

Wally Beyer
Governor
Rural Telephone Bank